

From: Gore, Bob/SAC [rgore@CH2M.com]
Sent: Monday, February 04, 2002 4:43 PM
To: 'tara.dunn@dgs.ca.gov'
Subject: ERIP Critical Analysis

Importance: High

Tara,

On behalf of CH2MHILL, I am pleased to offer this brief critical analysis of the ERIP. Should you wish a detailed elaboration or innovative discussion, please don't hesitate to call. Two of the firm's national energy practice leaders are at your service. One has done the permitting for several large generators; the other is the former director of Sandia National Labs and has advised the last 3 Secretaries of Energy. We are also a major PIER contractor for CEC.

The ERIP is an unprecedented and significant public policy endeavor. As someone who has closely followed the CPA since its beginning and has interacted with several staff members, I can say that the firm would be privileged to continue to contribute. We ask tough questions below, but now is not the time for softballs. Please share this document as appropriate.

Discussion points:

1. What is the role of direct access in the overall distributed generation mix? Doesn't the PUC ban on direct access have a negative impact on incentives for participating in distributed generation? Distributed generation means looser rules to sell to the grid...no? (Most DG developers would like to overbuild and generate a profit aside from power.)
2. The push for eminent domain authority is a two-edged sword. It is a probable chilling effect on IOU major capital outlay in California. Investors are jittery people; underwriters/investment bankers are distilled investors.
3. Wind and solar, other than under absolute optimum conditions (which are not dependable), are not dispatchable. ERIP notes that renewables are dispatchable, but does not provide a realistic scenario for "dispatchability."
4. The Joint Legislative Audit Committee reached a bipartisan informal consensus at its last hearing that renewables had to be off-subsidy on a definite, near-term timeline. Market-supported renewables is likely one of the top 3-5 energy policy issues this year and is not addressed on a granular basis.
5. The CPA's \$5B bond issue has not been approved or scheduled. Various would-be competing bond issues significantly exceed the Governor's \$15B bond issuance limit for 2002. As the ERIP notes: "the bonding authority was not created with a defined credit structure, and the CPA does not have a customer base to pass on costs, equity to risk or the ability to raise rates." Does CPA have a life without a bond issue?
6. The CPA proposes to serve as a broker between government energy funding programs and businesses/consumers...and to charge an add-on fee. There is no support or evidence cited for this function or, as in any business plan, a fee schedule with market willingness to pay.
7. The ERIP does not provide a rationale or incentive for businesses and consumers to pay administrative costs+ for the CPA's proposed bundling of access to other agencies' financing. In addition, this is a de facto marketplace that may require regulatory authority and/or professional licensure to administer.
8. None of the proposed federal or state agencies that would provide financial partnership with their grant/bond programs have either signed agreements or formally expressed interest.
9. ERIP energy capital improvements for state agencies require an expenditure of \$1-3B as the state grapples with a two-year budget deficit of \$14B.

10. Creating 5-10,000 jobs is soft data with no detailed support.
11. Likewise, cleaning up NOX and CO2 emissions to the equivalent of removing 4-5M cars is verified only by a single "private conversation."
12. There is supposed "pent-up interest in efficiency investments" by consumers, businesses and public agencies. No evidence is provided.
13. The ERIP does cite a public opinion poll in support of clean energy, such as wind, biomass, thermal, PV and others. But there is no push question about consumer support for probable higher rates and at what levels.
14. "The CPA may pursue some projects to benefit a targeted area or group of customers. ...the CPA believes the costs, risks and benefits should be born(e) by those beneficiaries." No suggested projects provided; no specific instances of support noted.
15. A PV program partnership is touted with the City and County of San Francisco. It's a small point, but a PV program might be better suited for a locale with more sun.
16. PV rates are estimated in the ERIP at 5X for natural gas. Can public entities, in a down economy, afford to pick up the tab?



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